STATE OF MAINE
PUBLIC UTILITIES COMMISSION

November 14, 2003

MAINE PUBLIC UTILITIES COMMISSION, Docket No. 2001-827, Investigation of the Rate Design of Community Service Telephone Company

Docket No. 2001-827

ORDER APPROVING RATE PLAN AND INCREASES TO LOCAL RATES TO OFFSET ACCESS RATE REDUCTIONS

COMMUNITY SERVICE TELEPHONE COMPANY, Docket No. 2003-491, Implementation of 2002 Amendments to Chapter 204

Docket No. 2003-491

ORDER APPROVING INCREASES TO LOCAL RATES FOR BSCA EXPANSIONS AND BSCA CALCULATIONS (SUBJECT TO TRACKING)

WELCH, Chairman; DIAMOND and REISHUS Commissioners

I. SUMMARY

In this Order, we approve the proposal filed by Community Service Telephone Company (CST) to increase its rates for local service in conjunction with the implementation of changes to its basic service calling areas (BSCAs) and a reduction in its intrastate access rates. These changes all take effect on December 15, 2003. We also approve, subject to tracking pursuant to Chapter 204, § 5(C), the Company's calculations for net revenue loss that will occur as a result of the BSCA expansions.

II. BACKGROUND

On September 15, 2003 (revised on November 4, 2003), Community Service Telephone Company filed a proposal (including changes to its rate schedules and terms and conditions) to increase local rates to offset the expected revenue effects from expansions to the Company's basic service calling areas and from partially lowering its intrastate access rates to interstate levels. The BSCA expansions are required by recent amendments to Chapter 204 of our Rules.

The access rate reductions are required by 35-A M.R.S.A. § 7101-B (the "access parity statute"), amended effective May 2, 2003. Under the amended statute, May 31, 2005 is the final deadline for all local exchange carriers (LECs) to reduce their intrastate access rates to the interstate rates in effect on January 1, 2003. The statute also allows the Commission to order LECs to phase in the access rate reductions. The access rate reductions and the offsetting local rate increases are part of the Company's Revised Rate Plan filed on August 1, 2003 in Docket No. 2001-827, the proceeding opened by the Commission to investigate CST's rate design.

The BSCA expansions will become effective on December 15, 2003. They are required by the November 2002 amendments to Chapter 204. Each exchange will add all contiguous exchanges not presently part of its BSCA. LECs will experience access revenue losses because calls to the contiguous exchanges that are being added to the BSCAs that previously were long distance toll calls will become local. Thus, *all* the access revenue associated with those minutes is lost. Part of the local rate increases proposed by CST is designed to offset those losses on a revenue-neutral basis. For reasons outlined below, it is difficult to calculate precisely the rate changes needed to achieve revenue neutrality.

The access rate reductions also will cause a decrease in access revenues for calls to exchanges that are still toll calls (not within BSCAs). Part of the local rate increases proposed by CST is designed to offset those losses on a revenue-neutral basis. Unlike the revenue loss due to the BSCA changes, however, the access revenue loss attributable to the access rate reduction is readily calculable in advance.

III. REVENUE AND COST CHANGES DUE TO BSCA; TRACKING

In their filings, CST provided calculations of the BSCA revenue losses (which, as explained below, are known and certain amounts) and estimates (less certain) of revenue gains from local rate changes. The BSCA-related revenue changes include access revenue losses that will occur because calls to the areas that are being added to the Company's BSCAs previously incurred long distance toll charges (and generated access revenues for the Company), but are now local calls.[1] They also include changes in local revenue due to changes in the mix of subscribership to the Premium and Economy options, as well as changes due to the change in the rate (from 25 cents per call to 5 cents a minute) for economy customers who call outside the flat-rate calling areas of the Economy option but within the BSCA. The Company also included estimates of small amounts of BSCA-related directory, facility and non-recurring costs. As discussed in greater detail below, it is difficult to predict some of these elements.

Chapter 204, § 5(A) states that a LEC that implements new or modified BSCAs may propose rates that will cover its additional costs and net revenue losses that are attributable to those BSCA changes. Section 5(C) requires LECs to "track" revenue effects for a period of at least 12 months. If the LEC's net revenue loss is greater than predicted (i.e., greater than the prediction upon which the rates approved pursuant to Section 5(A) were based), the LEC may request recovery of the shortfall and propose rates (or request universal service funding)[2] that will collect the correct amount of revenue loss. If the LEC's net revenue loss is less than predicted (and included in rates approved pursuant to Section 5(A)), it must return the excess to customers and must propose future rates (or adjust ongoing support) that will collect the correct amount to offset the revenue loss.

For a LEC that provides only access service, but not retail toll, there is no reason for the BSCA tracking account to track lost access and billing and collection (B&C) revenues.

[1] The Company has no retail toll revenue; it only provides access to interexchange carriers.

[2] CST stated in its Revised Rate Plan, discussed below, that it may need to request USF for later steps of its access reductions.

Once these amounts are calculated, they do not change for ratemaking purposes. The number of minutes and messages (and, therefore, access and B&C revenue) that CST will lose as a result of the BSCA expansions during the test period is known. [3]

The Company has also provided calculations of effects on local revenues. One of those components is the revenue loss from the elimination of the rate of 25 cents per call for calls by Economy option customers to exchanges within the customer's BSCA but outside the flat-rate calling area of the Economy option. That component will be permanently lost. (It is being replaced by a rate of 5 cents per minute.) As in the case of the access revenue loss (described above), it is relatively easy to calculate, and its amount is known in advance.

It is necessary, however, to track the amount of additional local revenue that will act to offset the known losses described above. The local replacement revenues include revenues available from the increases to local rates for both the Premium and Economy options and from a new rate of 5 cents per minute for calls by Economy option customers to exchanges within the expanded BSCA but outside the flat-rate calling area of the Economy option (replacing the 25 cents per-call rate). These revenues cannot be fully predicted because the realized mix of customers subscribing to the Premium and Economy options may differ from predicted levels. Predictions are difficult to make because, ultimately, only customers can determine which of the calling options has greater value to them, and the calling areas available under each option will have changed. It is also difficult to predict revenues that the Company will receive from the new 5 cents per minute rate. The new rate may be more attractive to some customers and less attractive to others than the former 25 cents per call rate and might even influence customer choice for the two calling options.

We direct the Company to track the replacement revenues for 12 months and report the results to the Commission on or before March 15, 2005. Because notice of the BSCA changes will be relatively close to the December 15, 2003 implementation date, and many customers may not respond immediately to the calling options contained in the notice, we believe it makes sense for the 12 months of tracking to begin on February 1, 2004. The results shall be compared to the projections used in the November 4, 2003 filings. The Company may experience other changes in sales that may need to be taken into account in any possible revisions following the BSCA tracking period. Therefore, CST, on or before March 15, 2005, shall file billing units for all its services, including numbers of access lines and access and retail toll minutes, for the most recently available period prior to the implementation of BSCA expansion and for each month during the tracking period.[4]

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[3] For those LECs (Verizon, Saco River and Pine Tree) that offer retail toll service, it is far more difficult to calculate in advance the revenue effect of the loss of all toll traffic to the contiguous exchanges that are being added to BSCAs. The LECs that offer only access have only one set of rates, applicable to all traffic. It is easy to apply those rates to the lost traffic. By contrast, LECs that provide retail toll have a wide variety of rates, including some that are designed for short-haul (but not exclusively contiguous exchange) traffic and that have non-traffic-sensitive charges. It is not possible to determine the exact mix of those rates for the contiguous toll traffic that is lost, as compared to the mix of those rates for the toll traffic that remains.

[4] A large change in the number of lines will affect revenues, but that revenue change will not be a result of changes in revenues from customers attributable to the BSCA changes.

Chapter 204, § 5(C) does not expressly require "tracking" of expenses and new investment, or the recovery by the utility or ratepayers of the difference between the estimates embodied in rates (or USF) and actual costs, notwithstanding the fact the Section 5(A) allows a LEC to propose rates (or USF) in advance of implementation that will cover those costs. The November 4 filing provided few details in support of their estimates of those costs, and we have not subjected them to close examination. We therefore find that it is reasonable, as a condition of approving the rates pursuant to Section 5(A) of Chapter 204, that the Company keep records of the actual BSCA-related implementation expenses and investment, and that they provide that information to the Commission when such expenses and investment are completed, but no later than March 15, 2005.[5] Tracking should be for a period that covers all expenses related to BSCA and any changes in investment attributable to the BSCA expansions, provided they are not made later than January 31, 2005. Results shall be presented in absolute and annualized forms.

With the cost and investment tracking information, we may consider whether to order a change in rates to reflect the differences between present estimates and actual costs. We do not decide at this time whether we would order reconciliation for the differences during the tracking period. We note, however, that because the cost changes presently estimated by the Companies are not a large percentage of the proposed rate increase, if the projections are reasonably accurate, rate changes or reconciliation may be unnecessary. CST has proposed a 5-year amortization for expenses. We find that proposal is reasonable. If there is a need to change rates as a result of the tracking, we will determine the appropriate treatment of incremental investment at that time.

IV. LOCAL RATE INCREASES AND ACCESS RATE REDUCTIONS

In the revised rate plan filed on August 1, 2003 in the rate design investigation (Docket No. 2001-827), CST proposed to reduce its access rates to interstate levels (that were in effect on January 1, 2003) in three further steps. The first step would occur on December 15, 2003 and is integrally related to the proposed local rate increase and the implementation of the BSCA expansions. CST proposed that its local rates increase on December 15 in an amount equal to 50 percent of the "combined increase," defined by the Company as the amount necessary to implement BSCA and reduce intrastate access rates to interstate levels that were in effect on January 1, 2003. The Company's present estimate is that the average combined increase per line would be $6.90.[6] The additional local revenues realized from the first step (December 15, 2003) in effect would be applied first to offset projected BSCA net revenue losses and cost increases. The remainder of the additional local revenues offsets the revenue effects of the access rate reduction. The amount of that access rate reduction is calculated to produce a revenue loss equal to the local service revenue gain that is left over after the projected BSCA revenue and cost effects.

Line data will allow the Commission to calculate a revenue effect per line and thereby filter out effects due to line losses or gains.

[5] CST included estimates for facilities, directory and non-recurring costs. It must justify and provide actual cost support for all claimed expenses and investments.

[6] Its estimate in the Revised Rate Plan itself was $7.35.

The rates and rate changes that will go into effect as a result of this Order are presented below. Although the *increases* in rates vary considerably, CST has attempted to make its rates more uniform.

	Current Basic Rate	Post-BSCA Rates (12/15/03)	Rate Increase
Litchfield (268)			
Residence Economy	$11.10	$14.57	$3.47
Residence Premium	$14.64	$17.84	$3.20
Business Economy	$20.34	$26.43	$6.09
Business Premium	$28.07	$32.61	$4.54
Mount Vernon (293)			
Residence Economy	$10.20	$14.09	$3.89
Residence Premium	$15.73	$17.40	$1.67
Business Economy	$18.60	$25.53	$6.93
Business Premium	$27.93	$31.37	$3.44
Winthrop & East Winthrop (377 & 395)			
Residence Economy	$12.29	$15.49	$3.20
Residence Premium	$14.18	$17.07	$2.89
Business Economy	$23.27	$28.25	$4.98
Business Premium	$27.15	$31.21	$4.06
Leeds (524)			
Residence Economy	$11.10	$14.57	$3.47
Residence Premium	$14.64	$17.84	$3.20
Business Economy	$20.34	$26.43	$6.09
Business Premium	$28.07	$32.61	$4.54
Monmouth (933)			
Residence Economy	$11.46	$14.97	$3.51
Residence Premium	$14.64	$17.84	$3.20
Business Economy	$20.98	$27.15	$6.17
Business Premium	$28.07	$32.61	$4.54
Greene (946)			
Residence Economy	$12.29	$15.49	$3.20
Residence Premium	$14.64	$17.84	$3.20
Business Economy	$23.27	$28.25	$4.98
Business Premium	$28.07	$32.61	$4.54

The second and third steps, proposed for September 15, 2004 and May 31, 2005, would each increase local rates by 25 percent of the "combined increase." Those increases would be entirely dedicated to offsetting the remaining two access reduction steps, each, like the first, on a revenue neutral basis.

We note that it may be necessary to alter the amount of the third step for a variety of reasons, including the results of the BSCA tracking described above, and, if it becomes necessary for CST to seek funding from the Maine Universal Service Fund, the need to set its local rates at a level no less than those of Verizon.

The Public Advocate has consistently supported all but the final step of the Revised Rate Plan and its predecessors that the Company has filed in Docket No. 2001-827. The Public Advocate has opposed the implementation on a revenue-neutral basis of the final steps of all of the Company's rate plans on the ground that the Commission should require CST to undergo a rate proceeding that will determine its revenue requirement. The Commission conducted a revenue requirement proceeding for CST in Docket No. 2001-249 that ended in November 2001. The Public Advocate has argued that the determination made in that case is sufficiently old that it is no longer valid, and a revised revenue requirement might show that not all of the "combined increase" proposed by the Company was necessary.

We find that we can address the OPA's concerns in another way. The Public Advocate recently entered a Stipulation with the Company in a case that approves the acquisition of CST's stock by Fairpoint of New England. *Community Service Telephone Company and Northland, Sidney, Standish, China and Maine Telephone Companies (Fairpoint Companies Of New England), Requests for Approval of Reorganizations,* Docket No. 2003-475. We approved that Stipulation at our deliberations on November 3, 2003. The Stipulation states that the revised rate plan proposed in Docket No. 2001-827 is approved upon "consummation" of the reorganization (stock transfer). It also states that if CST requests universal service funding or proposes local rates higher than those of Verizon, it will file a rate case at that time. Finally, if there is no earlier rate case, CST must make a Chapter 120 filing no later than May 31, 2006, using a 2005 test year. At that time, a full year's experience under Fairpoint ownership will be available. The Stipulation also states that if the reorganization is not consummated, the rate plan is not approved, none of the obligations described above apply, and the Public Advocate is free to pursue arguments in Docket No. 2001-827 that the Commission should require a rate case. According to a recent communication from the attorney for Fairpoint, there is a high likelihood that the reorganization will be consummated.

We find that the Stipulation in the reorganization case contains an appropriate resolution of the issue raised by the Public Advocate in this case concerning a need for a rate case for CST, assuming that the reorganization is consummated. Subject to the possibility that the reorganization is not consummated, we approve the Company's revised rate plan of August 1, 2003 as reasonable under the terms of present 35-A M.R.S.A. § 7101-B. If, for some reason, the reorganization is not consummated, we will need to reopen this Order.

V. INTERACTION BETWEEN BSCA AND ACCESS RATE EFFECTS

Two separate events will affect CST's access revenue and local service rates on December 15, 2003: the reduction in access rates and the elimination of access revenue entirely from those toll routes that will become local as result of adding them to BSCAs. As noted above, the Company can calculate the revenue effects of the access rate loss in advance, and, in their November 4, 2003 filings, has done so correctly.

The interaction between the calculations for those two effects is somewhat complex. In both of their filings, the Company in effect assumed that the access rate reductions that will take effect on December 15, 2003 occurred *before* the elimination of access and B&C revenue entirely for the calls (presently interexchange toll) to the contiguous exchanges that will be added to BSCAs, even though both events will occur simultaneously. The Company's approach is reasonable, although it would be equally valid to calculate the effect of the BSCA changes first.

We see no substantive difference between the end results of the two approaches. Neither method over-counts or under-counts and both arrive at the same end result. To determine the amount of total lost access revenue, the Company applied the access rate reduction to all their access minutes (including the minutes that will be lost entirely because of the BSCA expansions). For the subset of access minutes that will be lost entirely due to the BSCA expansions, the Company then applied the difference between the new access rates and $0. It also calculated the associated loss in B&C revenue for those minutes. The alternative method would calculate the revenue effect of eliminating the minutes that will be lost to the BSCA expansions first (using present access rates), and would then determine the revenue effect of the access rate reduction to the remaining (non-BSCA) minutes.

Although there is no difference in the end results of the two approaches, each produces different numbers for the revenue reduction due to the access rate change and that for the loss of access minutes as a result of the BSCA expansions. For the BSCA revenue loss, the method used by the Company shows a smaller loss than the alternative approach. The Company already had reduced the access rate prior to eliminating the minutes entirely, leaving only the difference between the *reduced* access rate and $0 as the BSCA-caused loss. The alternative method would show a greater BSCA access revenue loss: by eliminating the BSCA minutes first, the loss per minute would show as the difference between present access rates and $0. Conversely, the effect on the revenue loss due to the access rate reduction is greater using the Company's approach because the minutes that will disappear with the BSCA expansions have not yet been removed; under the alternative approach, they would be removed first, thereby showing a smaller loss.

As noted above, the difference between the two approaches has no effect on the end results, in particular, on the amount of the local rate increases and the BSCA tracking accounts. First, to the extent that one method shows a greater (or lesser) BSCA revenue loss, the difference is offset exactly by a lesser (or greater) amount shown for the access rate reduction. Second, as discussed above, the BSCA tracking account is not used for tracking lost access and B&C revenues. Even though the two approaches will produce two different numbers for this loss, once the amount is calculated, it never changes. (The Companies must, of course, use the same approach at the end of the tracking process.)

Accordingly, we

1. APPROVE, pursuant to Chapter 204, § 5(A), the increases to local exchange service rates proposed by Community Service Telephone Company in Docket Nos. 2001-827 and 2003-491;

2. APPROVE the reductions in intrastate access rates proposed by Community Service Telephone Company in Docket Nos. 2001-827 and 2003-491;

3. APPROVE the changes to the rate schedules and terms and conditions of Community Service Telephone Company filed with the Commission on November 4, 2003 (all labeled “2nd Draft”), for effect on December 15, 2003;

4. APPROVE the initial calculations by Community Service Telephone Company of expected revenue losses and gains and cost changes as a result of BSCA expansions, subject to the maintenance by the Company of tracking accounts and the reporting of the tracking results, as described herein;

5. ORDER Community Service Telephone Company to maintain tracking accounts from February 1, 2004 until January 31, 2005 for net revenue changes that will occur as a result of expansions of basic service calling areas (BSCAs) that will become effective on December 15, 2003; for that purpose the Company shall hold constant in the tracking account the calculations in its filing of November 4, 2003 for access revenue loss (which reduced access rates first and then eliminated all minutes and revenue for exchanges being added to BSCAs) and the loss of revenue from the elimination of the rate of $.25 per call described herein, and shall track the effects of the local revenue increases approved herein;

6. ORDER Community Service Telephone Company, on or before March 15, 2005, to report to the Commission the results of the tracking account described in paragraph 3 and changes in the number of lines; to provide a proposal for reimbursement of customers for any over-funding consistent with the requirements of Chapter 204, § 5(C) and this Order; and to propose rate adjustments for future rates if the rates approved herein result in over-collection;

7. ORDER Community Service Telephone Company to maintain a tracking account from the commencement of the incurrence of expenses until January 31, 2005 for changes in their revenue requirement (expenses and investment) resulting from of the implementation of the BSCA changes that will take place on December 15, 2003, and to report the results of that tracking on or before March 15, 2005; and,

8. ORDER Community Service Telephone Company, on or before March 15, 2005, to file billing units for all its services, including numbers of access lines and access and retail toll minutes, for the most recently available period prior to the implementation of BSCA expansion and for each month during the tracking period.

Dated at Augusta, Maine, this 14th day of November, 2003.

BY ORDER OF THE COMMISSION

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Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
Diamond
Reishus

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.

2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within **21 days** of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.

3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.